



MEMORANDUM

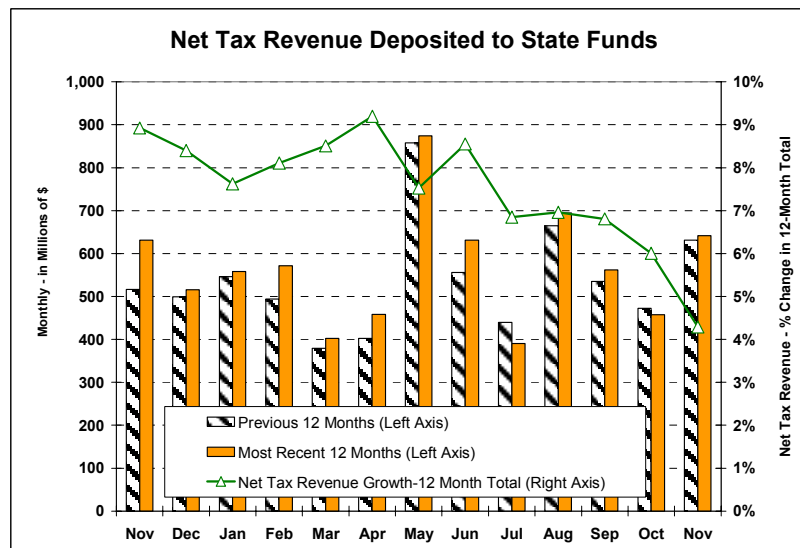
TO: Members of the Iowa Senate and
 Members of the Iowa House of Representatives

FROM: Jeff Robinson
 Shawn Snyder

DATE: December 10, 2008

Twelve-month Total Net Tax Receipts Through November 30, 2008

The attached spreadsheet presents net State tax receipts for the 12-month period ending November 2008 with comparisons to the previous 12 months. November 2007 to November 2008 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were collected, along with the refunds issued against those taxes.



Month of November Comparison

November net tax receipts totaled \$641.2 million, an increase of \$10.2 million (1.6%) compared to November 2007. Major taxes contributing to the month's change include:

- Individual Income Tax (positive \$33.8 million, 14.2%) – Income Tax net revenue rebounded from a poor October, indicating the drop in that month was influenced by deposit date and processing issues. Gross receipts were up \$33.5 million in November while Income Tax refunds were \$0.3 million lower for the month.

- Corporate Income Tax (negative \$19.5 million, - 87.2%) – Gross receipts decreased \$13.4 million and refunds increased \$6.1 million. Net Corporate tax receipts have decreased in each of the past three months, with October and November showing significant decreases.
- Sales/Use Tax (positive \$8.0 million, 2.9%)
 - Road Use Tax Fund Use Tax deposits decreased \$3.6 million, reversing much of the increase shown in October.
 - General Fund Sales/Use Tax receipts increased \$39.7 million and refunds issued for the month increased \$28.1 million (net increase of \$11.6 million). The large increases in gross receipts and in refunds are related to the recently-enacted Statewide Sales/Use Tax increase for school infrastructure coupled with the elimination of the local Option Sales Tax for school infrastructure. This change boosts State Sales/Use Tax receipts while increasing tax refunds by a similar amount, as the school infrastructure revenue is being removed from the State General Fund through a refund appropriation.
- Fuel Tax (positive \$3.3 million, 9.4%) – Gross Fuel Tax revenue increased \$4.0 million while refunds processed in the month increased \$0.7 million. The large November increase offset an October Fuel Tax revenue decrease.
- Cigarette & Tobacco Taxes (negative \$4.4 million, - 19.6%) – The Cigarette Tax was increased from \$0.36 per pack to \$1.36 per pack on March 16, 2007. The rate for other tobacco products also increased. Since reaching the one-year anniversary of increased revenue from the rate increases, Cigarette and Tobacco Tax revenue has shown positive growth for four of seven months.
- Gambling Taxes (negative \$9.9 million, - 35.5%) – Gambling tax revenue is deposited once per week. November 2008 had four deposit days while November 2007 had five. This calendar issue accounts for the large monthly decrease and it reverses a calendar issue increase reported in October.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending November 2008, net revenue from all taxes deposited to State funds totaled \$6.756 billion, an increase of \$277.7 million (4.3%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$163.0 million, 5.9%) – The rate of Individual Income Tax receipt growth has decreased significantly since peaking in April 2008 at 11.8% year-over-year.
- Corporate Tax (negative \$36.6 million, - 10.3%) – Net Corporate Tax receipt growth over the past year is now negative for the first time since August 2004. The net revenue drop-off over the past two months has been significant as refunds increased and receipts decreased.
- Sales/Use Tax (positive \$90.1 million, 4.1%) – Despite Iowa gas prices averaging \$0.55 per gallon higher over the past 12 months, slowing employment growth, declining home equity withdrawals, and reduced home construction, General Fund Sales/Use Tax receipts continue to show strength. Non-General Fund net Sales/Use Tax revenue is up modestly year-over-year.
- Motor Fuel Tax (negative \$9.7 million, - 2.1%) – Net Motor Fuel Tax revenue has been weak the past ten months, likely the result of higher fuel prices reducing the growth in fuel demand. According to Department of Revenue taxable gallons sales reports, over the most

recent 12-month period Iowa gasoline/ethanol gallons sold decreased 2.8% while diesel sales were down 0.3%, the first year-over-year annual diesel decline since May 2002.

- Gambling Tax (positive \$2.5 million, 0.9%) – The new Waterloo casino and changes to the Clinton casino are boosting year-over-year statewide Gambling Tax growth. According to Racing and Gaming Commission statistics, eight of Iowa's seventeen casino/track locations reported negative adjusted gross revenue growth over the most recent 12-month period compared to the previous period.
- Cigarette and Tobacco Tax (positive \$48.0 million, 23.8%) – Over the next five months, the year-over-year rate of revenue increase will continue to decline as the second anniversary of the tax increase approaches.
- Insurance Premium Tax (positive \$10.9 million, 11.2%) – The Insurance Premium Tax rate was reduced over multiple years and is now fully implemented.

Tax Spotlight – Racing and Gaming Tax

Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Chapter 99D and Chapter 99F, Code of Iowa. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 14 other casinos that offer gaming that is subject to the State wagering tax in Iowa.

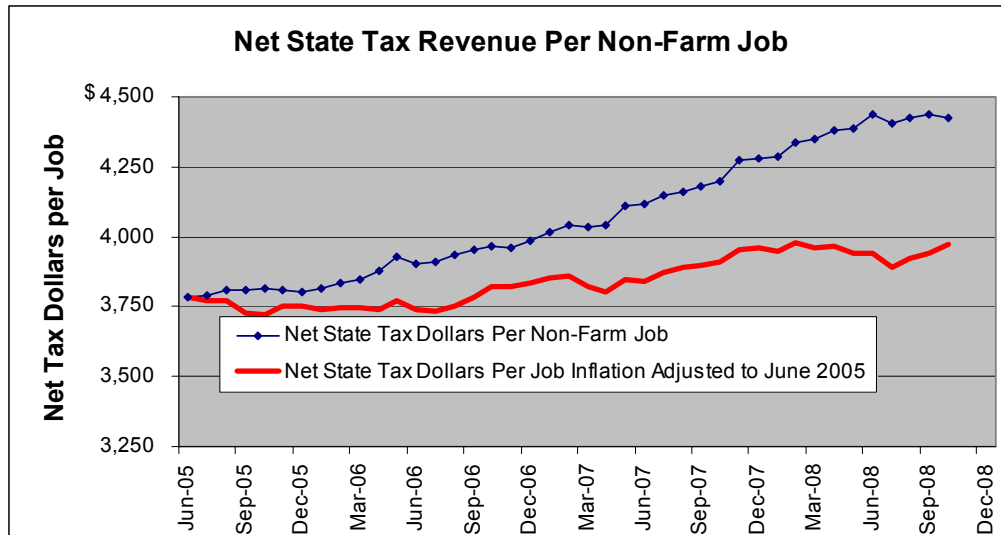
Pari-mutuel /Gambling Timeline

Pari-mutuel gambling on horse and dog races was approved with passage of SF 92 (Pari-mutuel Wagering Act) in 1983 with a tax rate of 6.0%. Simulcasting of races was approved in SF 220 (Pari-mutuel Wagering Changes Act of 1989). This Act also changed the tax on horse and dog racing to its current percentages. The Excursion Boat Gambling Act of 1989 (SF 124) provided for gaming on excursion boats and taxed gambling receipts at 5.0% on the first \$1.0 million, 10.0% on the next \$2.0 million, and 20.0% on gambling receipts above \$3.0 million.

House File 2179 (Gambling at Pari-mutuel Racetracks Act of 1994) authorized slot machines at pari-mutuel racetracks with wagering taxed at 22.0% in the initial year and increasing by two percentage points per year until the rate reached 36.0%. In 2002, the Iowa Supreme Court ruled racetrack casinos could not be taxed differently than excursion boat casinos. In response to the ruling, the General Assembly passed HF 2302 (Gambling Changes Act) which changed the tax rates to the current rates.

Tax Revenue and Employment

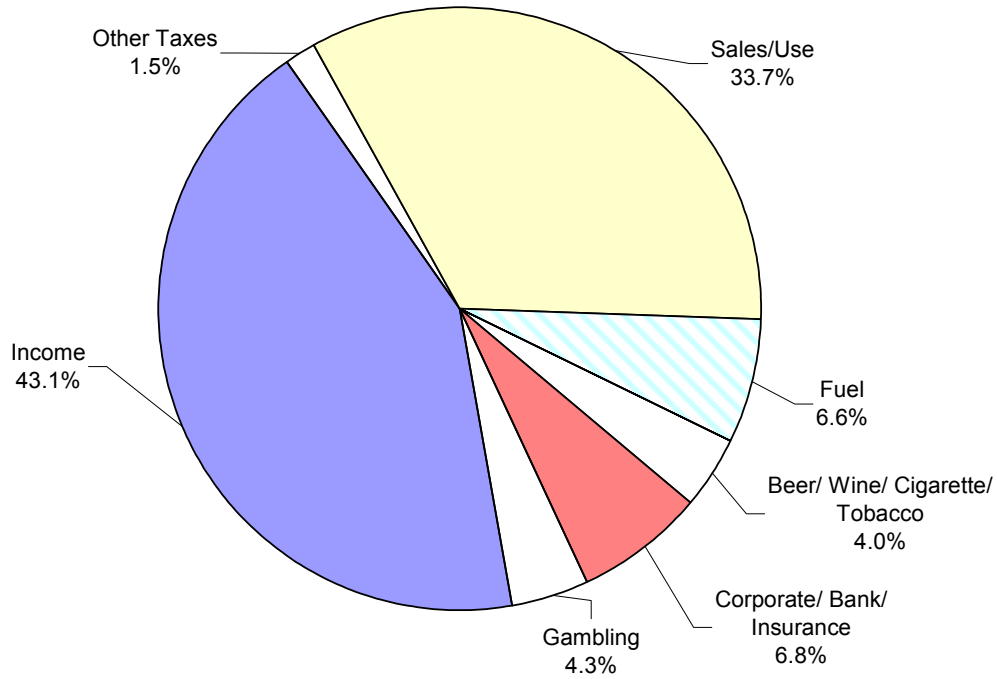
The average reading for Iowa non-farm employment over the 12 months ending October 2008 is 1,523,600, and net State tax receipts over the same 12 months totaled \$6.746 billion, or \$4,427 per non-farm job. This is \$642 (17.0%) higher than the per-job average for June 2005. Over that same time period, inflation (CPI-U) increased 11.3%. Therefore, tax revenue per job has exceeded the rate of inflation since June 2005 by roughly 1.7% per year. The following chart provides an historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending November 2008

Net Revenue = \$6.756 Billion

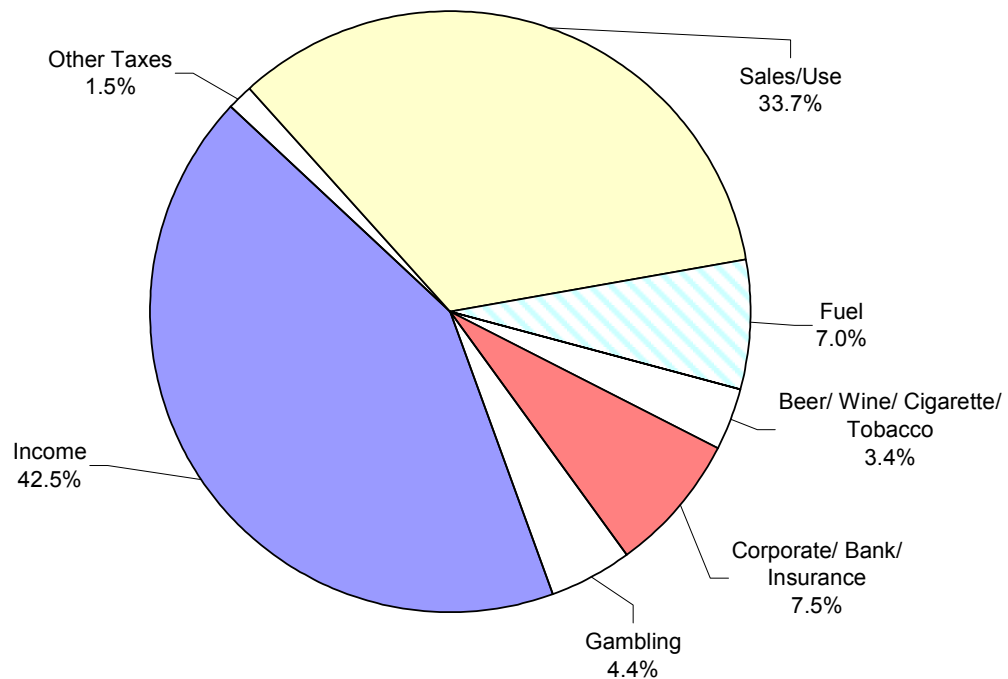
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending November 2007

Net Revenue = \$6.478 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2007	Month of November 2008	November \$ Change	November % Change
Banking	\$ 32.9	\$ 33.7	\$ 0.8	2.4%	\$ - 0.5	\$ 0.0	\$ 0.5	-100.0%
Beer & Wine	20.6	20.8	0.2	1.0%	2.1	2.0	- 0.1	-4.8%
Cigarette & Tobacco	201.4	249.4	48.0	23.8%	22.6	18.2	- 4.4	-19.5%
Corporate Income	353.7	317.1	- 36.6	-10.3%	22.4	2.9	- 19.5	-87.1%
Fuel	453.9	444.2	- 9.7	-2.1%	35.0	38.3	3.3	9.4%
Gambling	287.4	289.9	2.5	0.9%	27.9	18.0	- 9.9	-35.5%
Individual Income	2,750.0	2,913.0	163.0	5.9%	237.7	271.5	33.8	14.2%
Inheritance	74.8	82.2	7.4	9.9%	8.0	5.7	- 2.3	-28.8%
Insurance	97.5	108.4	10.9	11.2%	0.0	1.0	1.0	0.0%
Other Taxes	2.9	6.0	3.1	106.9%	0.8	0.9	0.1	12.5%
Real Estate Transfer	18.3	16.4	- 1.9	-10.4%	1.4	1.3	- 0.1	-7.1%
Sales/Use	2,184.6	2,274.7	90.1	4.1%	273.4	281.4	8.0	2.9%
Total Net Taxes	<u>\$ 6,478.0</u>	<u>\$ 6,755.8</u>	<u>\$ 277.8</u>	4.3%	<u>\$ 630.8</u>	<u>\$ 641.2</u>	<u>\$ 10.4</u>	1.6%
Gross Tax & Refunds								
Gross Tax	\$ 7,123.3	\$ 7,627.5	\$ 504.2	7.1%	\$ 663.7	\$ 707.8	\$ 44.1	6.6%
Tax Refunds	\$ - 645.3	\$ - 871.8	\$ - 226.5	35.1%	\$ - 32.7	\$ - 66.6	\$ - 33.9	103.7%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,502.4	\$ 5,786.3	\$ 283.9	5.2%	\$ 541.0	\$ 557.5	\$ 16.5	3.0%
Road Use Tax Fund	\$ 711.4	\$ 709.4	\$ - 2.0	-0.3%	\$ 60.3	\$ 59.9	\$ - 0.4	-0.7%
Non-GF Gambling	\$ 227.2	\$ 228.1	\$ 0.9	0.4%	\$ 27.6	\$ 17.8	\$ - 9.8	-35.5%
Other State Funds	\$ 37.0	\$ 31.9	\$ - 5.1	-13.8%	\$ 2.1	\$ 5.9	\$ 3.8	181.0%
Local Option Taxes *	\$ 680.8	\$ 738.5	\$ 57.7	8.5%	\$ 81.2	\$ 85.0	\$ 3.8	4.7%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State Credit Union Tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All Corporate Tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All Motor Vehicle Fuel Tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$60.0 million of Gambling Tax revenue each fiscal year is deposited to the State General Fund. Other funds receiving deposits of Gambling Tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, the Endowment for Iowa's Health Account, and the Vision Iowa Fund.

Individual Income Tax: Most Individual Income Tax revenue is deposited to the State General Fund. Other destinations include the Workforce Development Fund (\$4.0 million) and Child Daycare Fund (\$2.6 million). In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All Inheritance Tax is deposited to the State General Fund.

Insurance Premium Tax: All Insurance Premium Tax is deposited to the State General Fund.

Other Taxes: Other taxes include Brucellosis Eradication Property Tax (deposited to a Department of Agriculture and Land Stewardship fund), Drug Stamp Tax (State General Fund), Utility Replacement Property Tax (State General Fund), and Car Rental Tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to a separate account to fund tax collection activities (tax gap).

Real Estate Transfer Tax: Real Estate Transfer Tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund.

Sales/Use Tax: General Sales/Use Tax is deposited to the State General Fund, while most Vehicle Use Tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the Vehicle Use Tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) Sales Tax was converted to a statewide 1.0% Sales/Use Tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net Sales/Use Tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, Local option taxes included the SILO Tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and Hotel/Motel Tax. Starting FY 2009, the SILO Tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the Local Option Tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.